

# Models and Mechanisms for Land Valuation and Capital Contribution (Shareholding) in the Context of Urban Renewal

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**Abstract** In the context of urban renewal, this study investigates land valuation and capital contribution (shareholding) as a key allocation mechanism. It traces the policy evolution, analyzes relevant local practices, and precisely defines the concept's operational models and mechanisms in this field. Based on this, this study delves into the operational models through which diverse market entities, specifically municipal-owned, district-owned state-owned enterprises (SOEs), and private enterprises, participate in urban renewal via land valuation and capital contribution (shareholding). Finally, corresponding countermeasures and recommendations are proposed, addressing key aspects including the applicable scope, operational rules, transfer and mortgage requirements, whole-life-cycle supervision, and exit mechanisms for this practice within urban renewal activities.

**Key words** Land valuation, Capital contribution (shareholding), Market entities, Urban renewal

## 0 Introduction

The *Report of the 20<sup>th</sup> National Congress of the Communist Party of China* outlines the imperative to accelerate the transformation of development models in megacities and to advance urban renewal initiatives. In the new era, urban renewal serves as a crucial measure to enhance the quality of urban living environments and to promote high-quality development. It is also a vital focus for implementing master urban plans, driving urban transformation, and improving overall urban quality.

At present, Shanghai has entered a new stage of development characterized by stock renewal. In this context, its urban renewal efforts confront a series of challenges, including a lack of clear implementation pathways, high renewal costs, insufficient market enthusiasm for participation, inefficient resource integration, and an underappreciated comprehensive value of renewal projects. The existing land resource allocation model falls short in addressing the challenges of urban renewal. Therefore, there is a pressing need to explore and innovate new approaches for allocating existing land resources. This study aims to systematically review the policy evolution and local practices regarding land use rights valuation and capital contribution. Drawing on Shanghai's context, it further explores the operational models through which different market entities can participate in urban renewal via this mechanism.

## 1 Evolution of the policy on land use right valuation and capital contribution

### 1.1 Policy evolution

**1.1.1** Policy germination stage (1992–1998). This stage, marked by the initial introduction of the state-owned land valuation

and capital contribution policy in 1992, aimed to address the disposal challenges of land assets during the shareholding reform of state-owned enterprises (SOEs). This approach functioned merely as a specific solution tailored to the unique problems of that particular period. Consequently, it was applicable only to the disposal of existing allocated land within the context of SOE reform<sup>[1-2]</sup>. It is crucial to delineate that this historical practice differs essentially from the current application, where valuation and capital contribution are regarded as a form of paid land use.

**1.1.2** Policy formation stage (1999–2015). This stage commenced with the promulgation of the *Regulations on the Implementation of the Land Administration Law* in 1999<sup>[2]</sup>, which legally recognized the valuation and capital contribution of state-owned land use rights as one of the three forms of compensated land use. Nevertheless, the absence of specific and operable implementing rules limited its widespread adoption. As a result, aside from exploratory efforts in a few cities, its application remained largely confined to the disposal of allocated land assets during SOE reforms.

**1.1.3** Policy deepening stage (2016 to present). This stage was ushered in by the 2016 promulgation of the *Opinions on Expanding the Scope of Paid Use of State-owned Land*. It formally established that land use rights obtained through valuation and capital contribution hold the same entitlements and pricing as granted land use rights. This policy advancement elevated the institutional development of the valuation and capital contribution mechanism to a new level.

**1.1.4** Overall characteristics. Having evolved from serving SOE (SOE) restructuring to becoming a market-oriented allocation tool, land valuation and capital contribution has significantly expanded its application. Initially confined to disposing of existing allocated land in SOEs, it was subsequently extended to the government's primary land supply sector<sup>[3]</sup>. This shift marks a transition from a relatively closed model serving SOE reform to an open, cooperative model available to the public, accompanied by

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a continuously refined scope of application and system of rights. As reforms deepen, the market's crucial role in allocating land resources has become more prominent. As a flexible land supply method<sup>[4]</sup>, valuation and capital contribution can more effectively meet the needs of diverse industries and enterprises, promote efficient land use, and drive sustainable economic development.

**1.2 Local exploration and practice** With the deepening cooperation between local governments and social capital, several cities in China have actively introduced reforms and standardized practices regarding the valuation of land use rights and their contribution as capital (or shareholding), based on their local conditions. These efforts encompass not only the management of existing allocated land assets, but also innovations in the primary market for newly supplied land, particularly in areas such as urban rail transit, resettlement housing, and public service projects<sup>[1]</sup>.

(i) Regarding the disposal of existing allocated land held by enterprises, a representative case can be found in late 1992, when the Shanghai Petrochemical Company, a subsidiary of China Petrochemical Corporation (Sinopec), underwent a shareholding system reform. As part of this restructuring, the state contributed the originally allocated state-owned land by converting it into state-owned shares, amounting to 500 million shares.

(ii) In urban rail transit integrated development projects, cities such as Lanzhou, Guiyang, and Nanning have restricted the method of valuing and contributing state-owned construction land as capital (or shareholding) to land designated for rail transit and its associated comprehensive development facilities. Shenzhen has further expanded these measures to include entities such as Shenzhen Metro Group Co., Ltd., Shenzhen Airport (Group) Co., Ltd., and Shenzhen Special Zone Development Group Co., Ltd.

(iii) Within the framework of the Public-Private Partnership (PPP) model<sup>[5]</sup>, the mechanism of land valuation and capital contribution (or shareholding) has been actively trialed. Taking Sanya City as an example, municipal SOEs are permitted to collaborate with external social capital, utilizing allocated land-use rights, either as initially allocated or after completing the land grant procedures, to advance project development. This approach has been applied to address land supply challenges arising from land expropriation and demolition, particularly for resettlement housing projects on state-owned land.

(iv) In public service projects involving foreign investment and non-profit private schools, Guangdong Province has introduced supportive land supply policies. For instance, in sectors such as healthcare, education, culture, elderly care, and sports (where projects are jointly invested by foreign investors and the government and meet the criteria for allocated land), it permits the use of methods such as valuation and capital contribution (or shareholding) of state-owned construction land. Furthermore, it encourages the application of similar land valuation and equity-based approaches to cooperate with social capital in establishing non-profit private schools, thereby fostering diversified development in the public service sector.

## 2 Connotation of land valuation and capital contribution (shareholding) in the context of urban renewal

**2.1 Necessities of land valuation and capital contribution (shareholding) in the context of urban renewal** To achieve sustainable urban renewal, it is imperative to explore and innovate the allocation models for existing land resources. Current challenges in the urban renewal process include obstructed implementation channels, high redevelopment costs, and limited motivation for market entities to participate. This calls for an acceleration in the transformation of development models and resource allocation concepts. In particular, the government should shift from acting primarily as a "supplier" of land to serving as an "operator" in the renewal process. Adopting a land valuation and capital contribution (or shareholding) approach can lower the upfront capital investment required for renewal projects and help establish a cost-benefit balance mechanism based on "cost-sharing and benefit-sharing" between the government and the market. This model reduces initial renewal expenses by avoiding large upfront transfer fee payments, thereby decreasing early-stage investment and associated financing costs, including high interest payments.

**2.2 Connotation of land valuation and capital contribution (shareholding) in the context of urban renewal** To encourage market entities to actively participate in urban renewal, the concept of land valuation and capital contribution (or shareholding) in this context has been redefined. Specifically, in fulfilling its role as the owner of state-owned natural resources, the state converts the land-use rights, which market entities would otherwise pay to use for a defined period, into state capital (equity shares) for compensated use, while also managing the state-owned assets formed through this valuation and equity conversion process. This approach is no longer confined to the traditional model of land acquisition and supply via valuation-based capital contribution; instead, it has been extended to urban renewal projects, where valuation and capital contribution (or shareholding) are integrated with existing land price adjustment mechanisms.

**2.3 Comparative analysis of land supply methods** A comprehensive comparison (Table 1) was carried out among the land reserve and supply model, the price supplementation model for existing land, and the valuation and capital contribution (or shareholding) model in the context of urban renewal. Based on the specific characteristics of urban renewal projects, the most suitable model is then selected.

## 3 Main ideas for the operation of the valuation and capital contribution (shareholding) model in the context of urban renewal

### 3.1 Main objectives and principles

**3.1.1 Main objectives.** This study explores how to reduce the cost of urban renewal and incentivize market entities to participate by leveraging land valuation and capital contribution (or shareholding) as a method for cost-benefit sharing between the govern-

ment and the market. Focusing on plots where market entities are willing to engage but are deterred by high upfront costs, the re-

search analyzes the operational models and characteristics of different entities within the urban renewal process.

**Table 1 Comparative analysis of land supply models in the process of urban renewal**

Land supply mode	Core contents	Advantages	Disadvantages
Land acquisition, reserve, and supply	The government acquires and reserves the land, then supplies it to the market. Market entities obtain the land through fair competition and pay the land transfer fees.	(i) Liquidity: The land becomes an independent corporate asset of the enterprise. (ii) Most complete rights: The enterprise gains the rights to possess, use, benefit from, and dispose of the land.	(i) There is a risk that the original rights holder or a company partnered with them for redevelopment may fail to secure the land. (ii) The enterprise is required to pay a large sum in land transfer fees. (iii) For the government, this approach does not utilize the land resource to its full potential but rather converts it into a one-time monetary revenue.
Price supplement for existing land	During urban renewal, the original rights holder can cooperate with market entities in various forms. The entity implementing the renewal supplements the land transfer fee to complete the corresponding land use procedures, ensuring that "the planning value-added (benefits are returned to the public/state)".	(i) Ensures that the original rights holder or a consortium formed with market entities can obtain the land. (ii) Provides liquidity, as the land becomes an independent corporate asset of the enterprise. (iii) Grants complete property rights.	(i) The enterprise is required to pay a large sum of land transfer fees in a lump sum. (ii) The government does not utilize the land resource to its full potential but rather converts it into a one-time monetary revenue.
Valuation and capital contribution (shareholding)	In urban renewal, the state converts the land-use rights, which market entities would otherwise need to pay for over a designated term, into state capital (equity) through valuation for compensated use.	Enterprises can obtain the right to dispose of the land-use rights without paying a massive land transfer fee upfront, significantly reducing the cost of renewal.	(i) Enterprises do not possess complete rights over the land-use rights; their ability to transfer or mortgage the rights is subject to certain restrictions. (ii) If the enterprise performs poorly or even goes bankrupt, the state, in its role as a capital contributor or shareholder, faces difficulty in recovering the expected or rightful land-use proceeds from the enterprise's bankruptcy liquidation.

**3.1.2 Main principles.** First, it is required to adhere to the principles of integrated planning and reform through innovation. We need to closely align with the pilot mechanism for entrusting the ownership of state-owned natural resources and fully address the land use needs arising from the reform and development of SOEs.

Second, we should uphold the concept of economical and intensive land use. To serve the "Three Highs and Four New" strategy, we must vigorously support enterprises in activating and utilizing their allocated land assets. Our goal is to increase the proportion of paid use for existing urban construction land and enhance the efficiency of land conservation and intensive utilization.

Third, it is required to follow the principle of advancing work in accordance with the law. We will implement full lifecycle management for allocated land that undergoes valuation for capital contribution (or shareholding). Furthermore, we will explore the establishment of mechanisms to monitor asset operations and conduct analytical evaluations. Based on these, we will timely adjust and improve relevant policies to ensure all risks remain under control.

### **3.2 Entry conditions, applicable land categories, and regulatory requirements**

**3.2.1 Entry conditions.** Basic conditions: To be eligible for valuation-based capital contribution (or shareholding), land use rights must meet the following conditions: (i) clear title; the rights must be legally owned, free from mortgages or ownership

disputes, and registered with the property rights authority; (ii) registration for unregistered land: If property rights registration has not been completed, the enterprise must apply to the local people's government for land use rights confirmation. Subsequently, the property registration authority will complete the registration or issue a land ownership certificate. (iii) proof of aggregation (if applicable): if land use rights have been aggregated through market-oriented means, relevant documentation proving the property rights consolidation must be provided.

Specific conditions: urban renewal projects to be disposed of through valuation and capital contribution (or shareholding) must be jointly identified by the financial and planning authorities. This mechanism is intended for projects where profit-loss balance is difficult to achieve due to factors such as historical/architectural preservation requirements, complex property rights consolidation, or high initial investment. Eligible projects may involve land categories including industrial, historical conservation, infrastructure, and rental housing land. In particular, commercial housing development is excluded from this arrangement, given its characteristically high development costs, inherent risks, and distinctly commercial, market-driven nature.

**3.2.2 Transfer and mortgage requirements.** The transfer of land use rights established through valuation-based capital contribution (or shareholding) requires prior approval from both the State-owned Assets Supervision and Administration Commission (or its

authorized state-owned capital platform company) and the Bureau of Planning and Natural Resources. This approval applies to transfers in whole or in part. Upon transfer, the land price must be paid in accordance with the land use conditions prevailing at the time of the transfer, with reference to the conditions that existed prior to the initial valuation and capital contribution. When construction land use rights acquired through valuation-based capital contribution (or shareholding) are mortgaged, the secured debt is strictly limited to loans financing the development and construction of that specific plot. The debt amount shall not exceed the ceiling stipulated in the contract. In cases where buildings under construction or newly built houses are mortgaged together with the land, the procedures must comply with relevant national and municipal regulations. Upon realization of the mortgage, the transferee not only assumes the rights and obligations under the original contract but is also required to pay the applicable land price and convert the method of obtaining the land use rights to a grant-based approach.

**3.2.3 Regulatory requirements.** Holders of land use rights acquired through valuation-based capital contribution (or shareholding) are obligated to use the land in compliance with applicable laws and regulations, strictly fulfill all contractual and supervisory agreements pertaining to the contribution arrangement, effectively activate land resources, and meet the objective of preserving and enhancing the value of state-owned assets. First, as stipulated in the land concession contract, closed-loop management shall be implemented throughout the entire lifecycle of the land, covering industrial investment, functional delivery, operation and maintenance, property holding, energy conservation, and environmental protection. Second, in line with the regulatory detailed planning and the renewal unit implementation plan, requirements for the construction and operation of public amenities, construction management, and real estate registration shall be enforced. Supervision will also be carried out during the comprehensive planning acceptance and integrated law enforcement stages. Third, SASAC (State-owned Assets Supervision and Administration Commission) or the state-owned capital platform renewal company shall strengthen oversight over major decision-making matters such as equity changes, transfers, exits, and profit distribution. Fourth, the Planning and Natural Resources Bureau shall enhance full-process oversight of land transfer, mortgage, and related procedures.

**3.3 Operation models of different market entities** This study examines how market entities participate in urban renewal through land valuation and capital contribution (or equity participation). It addresses changes in land use, plot ratio, building height, and other planning parameters, as well as the duration of land use rights. According to the *Regulations on the Administration of State-owned Land Use Rights Transfer Revenues*, if the land use rights holder modifies the land use type, plot ratio, or term of use, they must pay the corresponding land conveyance fee to the state. On the one hand, if the urban renewal plot is approved by

the municipal people's government, the additional land price paid shall be fully allocated to the municipal treasury. On the other hand, if the plot is approved by the district people's government, the additional land price will be shared between the district and municipal treasuries. When market entities participate in urban renewal through land valuation and capital contribution, they do not pay the land concession price directly. Instead, they acquire land use rights by transferring equity equivalent in value to the concession price. Depending on whether the renewal plot was initially granted by municipal or district authorities, the Municipal Bureau of Planning and Natural Resources, the municipal finance department, and their district counterparts will each perform their respective duties in supervising the subsequent renewal operations and profit distribution of market entities.

In this study, we analyzed the specific situations of different market entities participating in urban renewal in terms of grantor, asset disposal plan, regulatory mechanism, and profit distribution (Table 2), and analyzed their advantages and disadvantages.

## 4 Countermeasures and recommendations

**4.1 Prudent participation promotion** Since the valuation and capital contribution involving state-owned land-use rights require government approval, this land disposal model relies substantially on administrative power to facilitate land capitalization, a tendency that runs counter to the reform goal of "market-oriented allocation of corporate factors." Besides, given the high value of land assets, contributing land-use rights as equity can reduce a company's debt-to-asset ratio, but it may also raise its financial leverage and corresponding risks, thereby heightening the potential for loss of state-owned assets. Therefore, it is recommended that market entities' participation in urban renewal through valuation-based capital contribution be implemented prudently and in a phased manner. SOEs serve multiple functions in the urban renewal process, acting as quasi-governmental entities, property rights holders, and market participants. It is recommended that municipal SOEs be allowed to participate first by contributing their own land as equity, provided that the land grantor is limited to the municipal people's government. Subsequently, district-owned SOEs or private enterprises may gradually be permitted to take part through land valuation and equity contribution, with the land grantor being either the municipal or district people's government.

**4.2 Clarifying the path and details** At present, the state has only issued guiding principles for land supply via valuation-based capital contribution, stating that "the municipal or county people's government, as the contributing party, shall formulate a valuation and capital contribution or shareholding plan, which shall be implemented upon approval by the same level of government." However, no specific guidelines or detailed implementation rules have been established regarding the valuation amount of land or the corresponding supply procedures. Given the distinctive nature of urban renewal projects that utilize land through valuation-based capital contribution or shareholding, it is recommended that the valu-

ation amount and land supply procedures be determined with reference to the agreement-based grant method, thereby emphasizing the principle of "paid use." Furthermore, it is essential to clarify the content of valuation and capital contribution (or shareholding)

contract terms and regulatory requirements, as well as to define the responsibilities of the different administrative departments involved in such activities within urban renewal, along with the functions of state-owned capital renewal platform companies.

**Table 2 Scenarios of different market entities adopting valuation and capital contribution (shareholding) in urban renewal**

Entities	Asset disposal plan	Renewal company	Profit distribution	Risk of state-owned asset loss	Advantages and disadvantages
Municipal SOEs	Municipal SOEs submit applications to the municipal state-owned assets and municipal finance departments, in consultation with the Municipal Bureau of Planning and Natural Resources, and report to the municipal people's government for approval.	-	The municipal state-owned assets are remitted to the municipal finance department as required.	Relatively small	The market entities are limited.
	Municipal SOEs submit applications to the district state-owned assets and district finance departments, in consultation with the District Bureau of Planning and Natural Resources, and report to the district people's government for approval.	The district people's government needs to establish a state-owned capital platform renewal company.	The renewal company remits to both the district and municipal finance departments at a certain ratio.	Relatively low	A renewal company needs to be established.
District-owned SOEs	District-owned SOEs submit applications for the disposal of state-owned assets to the municipal finance department and the Municipal Bureau of Planning and Natural Resources. After review by the municipal finance and planning resources bureaus, the applications are reported to the municipal people's government for approval.	The municipal people's government needs to establish a state-owned capital platform renewal company.	The renewal company remits to the municipal finance department as required.	Moderate	
	District-owned SOEs submit applications for the disposal of state-owned assets to the district finance department and the District Bureau of Planning and Natural Resources. After review by the district finance and planning resources bureaus, the applications are reported to the district people's government for approval.	-	The district state-owned capital is remitted to the municipal finance department and the district finance department as required.	Moderate	The market entities are limited; it is necessary to establish a renewal company.
Private enterprise	Private enterprises submit applications for the disposal of state-owned assets to the municipal finance department and the Municipal Bureau of Planning and Natural Resources. After review by the municipal finance and planning resources bureaus, the applications are reported to the municipal people's government for approval.	The renewal company takes charge of overall management and supervision.	The renewal company remits to the municipal finance department at a certain ratio.	Relatively high	Clarify land assets and reduce the debt ratio of enterprises.
	Private enterprises submit applications for the disposal of state-owned assets to the district finance department and the District Bureau of Planning and Natural Resources. After review by the district finance and planning resources bureaus, the applications are reported to the district people's government for approval and filed with the Municipal Bureau of Planning and Natural Resources.		The renewal company remits to both the district and municipal finance departments at a certain ratio.	Relatively high	

**4.3 Whole-process supervision** To mitigate the risk of state-owned asset devaluation during the processes of asset valuation and equity investment (or shareholding), relevant authorities must fulfill their specific review responsibilities within the approval procedure. The division of duties is as follows; the development and reform department oversees the formulation of valuation and investment plans and reviews the involved industry categories; the finance department examines the capital management aspects related to the valuation and investment; the natural resources department verifies land ownership, nature, permitted use, and appraisal re-

sults; and the state-owned assets department assesses the eligibility of both the evaluating entities and the assets being evaluated for contribution or equity participation. Throughout the land use period, government departments, acting on behalf of the landowner, shall exercise supervision from two perspectives; land use control and land use efficiency. Firstly, regarding land use control, it is essential to clarify the conditions, permitted uses, departmental responsibilities, and ongoing management requirements for state-owned land involved in valuation-based equity contributions (or shareholding). Procedures and oversight for any changes in land

